CALIFORNIA MEDICAL ASSISTANCE COMMISSION
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CALIFORNIA MEDICAL ASSISTANCE COMMISSION

State Capitol, Room 113

Sacramento, CA

Minutes of Meeting

May 26, 2005

COMMISSIONERS PRESENT
Nancy E. McFadden, Chair
Diane M. Griffiths
Teresa P. Hughes
Vicki Marti
Lynn Schenk
Cathie Bennett Warner

CMAC STAFF PRESENT
J. Keith Berger, Executive Director
Enid Barnes
Theresa Bueno
Paul Cerles
Denise DeTrano
Steve Soto
Michael Tagupa
Mervin Tamai
Carol Tate

COMMISSIONER ABSENT
Marco Firebaugh

EX-OFFICIO MEMBERS PRESENT
Bob Sands, Department of Finance
Sunni Burns, Department of Health Services

I. Call to Order

The May 26, 2005 open session meeting of the California Medical Assistance Commission (CMAC) was called to order by Chair Nancy E. McFadden. A quorum was present.

II. Approval of Minutes

The May 12, 2005 meeting minutes were approved as prepared by CMAC staff.

III. Executive Director's Report

Mr. Berger reported that there were no new requests from hospitals or health plans to appear before the Commission in closed session at this time.

Mr. Berger informed the Commissioners that there were 19 amendments and new contracts for action during today's closed session as well as some updates and strategic discussions on current negotiations.

Mr. Berger noted that the proposed language regarding the Commissioners' salary reduction was approved by the Senate, but rejected by the Assembly. Chair Nancy McFadden responded that the Commission has no position on the proposed salary reduction language.

Mr. Berger asked Sunni Burns to give the Commission an update on the hospital-financing waiver.

Ms. Burns reported that the State does not have an approved waiver. Ms. Burns briefly went over the "Hospital Financing Waiver Status Update" report, which describes the structure of the hospital-financing redesign proposal that is being negotiated by the State and Federal Government. She indicated that none of the items on the report have been finalized. Ms. Burns made a copy of the report available for the Commissioners and the public. A copy of the report is attached.

Mr. Berger asked Mr. Sands to give the Commission a brief update on the Governors' Budget May Revise that came out after the last Commission meeting.

Mr. Sands took a moment to introduce Nathan Stanley, a new staff member at the Department of Finance (DOF); Mr. Sands added that Mr. Stanley will be working with CMAC.

Mr. Sands informed the Commission that the Senate approved, but the Assembly rejected, language that would required Medi-Cal expenditures to be consistent with the estimated budget expenses; both Houses approved "Medicare" language that if needed would provide emergency drug coverage for 60 days starting January 1, 2006; both Houses rejected the Governor's proposal regarding premium payments for Medi-Cal beneficiaries; both Houses excluded the requirements that Aged, Blind and Disabled beneficiaries be mandatorily enrolled in Managed Care as part of the Managed Care Redesign Proposal, and both Houses rejected the Administration's California RX program for the uninsured. After his update, Mr. Sands answered a few questions from the Commission.

IV. Medi-Cal Managed Care Activities

Mr. Berger indicated that there was nothing new to report at this time.

V. New Business/Public Comments/Adjournment

There being no further new business and no additional comments from the public, Chair Nancy McFadden recessed the open session. Chair McFadden opened the closed session, and after closed session items were addressed, adjourned the closed session, at which time the Commission reconvened in open session. Chair McFadden announced that the Commission had taken action on hospital and managed care contracts and amendments in closed session. The open session was then adjourned.

HOSPITAL FINANCING WAIVER
STATUS UPDATE

The purpose of this document is to describe the new structure of a hospital financing redesign proposal that is being negotiated with the Centers for Medicare & Medicaid Services (CMS) and the Office of Management and Budgets (OMB). This approach consists of two distinct components, as described below, and does not change overall State funding compared to the structure of the previously proposed Section 1115 waiver.

1. Establish a New Section 1115 Waiver

A. **Safety Net Care Pool (Pool) Component:** The funds in the Pool could be used to cover costs not otherwise reimbursable (costs of non-Medicaid healthcare incurred by counties, the University of California, and the State). Pool funds would be accessed by certifying the expenditures. The Pool funding would consist of:

a) $180 million in new unallocated federal funds, each year of the five-year waiver, for non-hospital healthcare services provided to the uninsured ($900 million total).

b) $368 million that currently is being paid to public hospitals in federal funds, each year of the five-year waiver ($1.84 billion total). This is the funding difference for public hospitals between Medi-Cal cost and the Fiscal Year (FY) 2004/05 upper payment limit (UPL). This, in combination with c) below, is the payment amount provided to public hospitals to fund indigent care under the current SPCP waiver.

c) $218 million that is being paid to public hospitals in federal funds, each year of the five-year waiver ($1.09 billion total). This is the Congressionally provided UPL transition excess for the non-state government-owned category of facilities. Under current federal law, this amount is scheduled to decrease annually, from $218 million in FY 2005/06, to $159 million, $99 million, $40 million, and then to zero in FY 2009/10, the last year of the waiver. To avoid this result, a portion of the hospital waiver growth funding would be used in FY 2006/07, and beyond, to offset the decrease in the UPL transition excess. The Pool funding would remain constant, or "flat", with the decrease in the funding for the UPL transition excess offset by the growth funds. Because of the drop in the UPL transition excess amount, the entire amount of the Pool would remain fixed and could not increase.

d) CMS has requested, and may require, that 50 percent of the DSH program funding be included in the Pool.

The total amount of uncompensated care eligible for reimbursement from the Pool would be reduced by 17.79 percent, in recognition of services provided to

non-qualified aliens. For hospital-based services, DSH program funds would continue to pay for these costs. For non hospital-based services, these costs could not be claimed.

B. **SPCP (Selective Provider Contracting Program) Component:** (waiving statewideness, state plan rate setting and freedom of choice).

Most payments to hospitals for serving Medi-Cal beneficiaries would be paid under this component of the new Section 1115 waiver. Two hundred private and small district hospitals would continue receiving negotiated per diem rates and supplemental payments, with the non-federal share funded by the State General Fund. Supplemental payments to private hospitals would be based on a "virtual Disproportionate Share Hospital (DSH)" program calculation, and continuation of an SB 1255-like program. Supplemental payments would be made as if private hospitals were continuing to receive DSH program funding under the current formula, and were continuing to receive SB 1255 payments. This allows the "DSH swap" to occur (making more efficient use of DSH program funds), and provides $226 million in additional DSH dollars to public hospitals. Two important changes in this SPCP component of the waiver would be included, as follows:

a) Intergovernmental transfers (IGTs) currently used to fund supplemental payments to public and private hospitals would be eliminated.

b) Twenty-two public hospitals would be paid at cost, using certified public expenditures, and would not receive supplemental payments. These public hospitals could receive payments from the Pool (refer to 1.A. above) for costs incurred in providing services to uninsured persons. (CMS may want to include payments to the 22 hospitals in California's Medicaid State Plan, but this is not a significant issue).

The SPCP component of the new Section 1115 waiver would provide federal dollars for growth in cost and caseload, including $265 million in FY 2005/06. This amount would continue to grow each year of the waiver, to reflect continued growth in cost and caseload.

Expenditures in this component of the waiver would not affect the size of funds available in the Pool.

2. **Continue to Make DSH Payments Under a State Plan Amendment**
Private hospital DSH-like payments would be made from funds outside of the limited DSH program allotment, under the SPCP component of the waiver (refer to 1.B above). Public hospitals would certify their uncompensated care costs up to 100 percent of cost, and would use IGTs to obtain DSH payments above 100 percent of cost. Both portions of the payments resulting from the IGTs (the county or University of California amounts, and all federal dollars) would remain for use by the hospital and could not be transferred back to the county or to the University of California.

$226 million per year in new, unallocated federal funds made available through the "DSH swap" (described in 1.B above) would be available. To free up funds in the Pool, and to maximize use of DSH program funds, only public hospitals would receive funds from the DSH allotment. Private hospitals would receive their funding from the SPCP component of the waiver.

Federal Conditions for Full Funding of the Waiver.
The federal government has proposed conditions on the State's full waiver funding request. These conditions are designed to advance program objectives that the federal government seeks to achieve. $900 million of the waiver funding described in 1.A.a) above is linked to these conditions. The federal government has focused on two objectives:

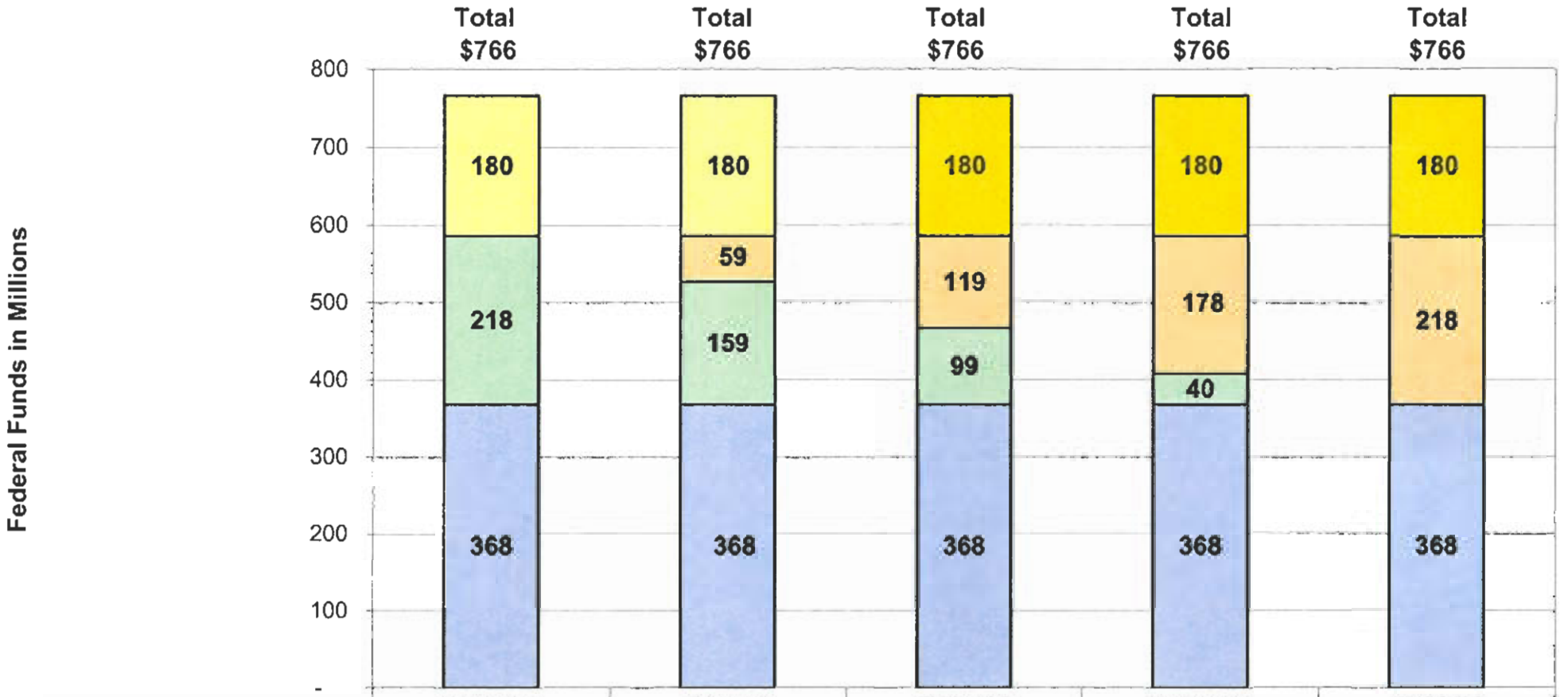
- Redesign of the Medi-Cal program through the implementation of managed care;

- Use of the Pool funds to expand healthcare coverage for the uninsured.

In order to obtain $360 million of the $900 million, the State would be required to meet milestones in the expansion of managed care, both geographically and for seniors and persons with disabilities.

Secondly, the State would be required to use $540 million of the $900 million of the waiver funding described in 1.A.a) above to provide healthcare coverage to the uninsured. The federal government has requested that the State include additional funds, over and above the $540 million, from other sources in the Pool for coverage expansions. This can be accomplished by using programs and services currently provided by public hospitals and clinics.

SAFETY NET CARE POOL
CALIFORNIA'S PROPOSAL



	FY05/06	FY06/07	FY07/08	FY08/09	FY09/10
Public Indigent Care	180	180			
Public Indigent Care			180	180	180
Growth		59	119	178	218
Transition Excess	218	159	99	40	
Above-Cost Supplements	368	368	368	368	368

Notes:
- Funding contingent on achieving managed care milestones
- Funding contingent on implementing a coverage program